

1 **SOUTH CAROLINA TELEPHONE COMPANIES**
2 **DIRECT TESTIMONY OF EMMANUEL STAURULAKIS**
3 **BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**
4 **DOCKET NO. 97-239-C**

5

6 **Q. Please state your name and business address.**

7

8 **A. My name is Emmanuel Staurulakis. My business address is 6315 Seabrook**
9 **Road, Seabrook, Maryland 20706.**

10

11 **Q. By whom and in what capacity are you employed?**

12

13 **A. I am President of John Staurulakis, Inc. (JSI) a telecommunications consulting**
14 **firm providing a full range of financial, regulatory and management consulting**
15 **services to independent telecommunications providers throughout the nation.**

16

17 **Q. Please briefly outline your education, training and experience in the**
18 **telephone industry.**

19

20 **A. In 1980, I received a Bachelor's degree in Business Administration from the**
21 **American University, Washington, D.C. From May 1980 until December**
22 **1984, I worked at JSI as a Cost Separations Consultant. My responsibilities**

1 included preparing jurisdictional toll cost separations studies for clients in
2 several states.

3

4 In December 1983, I earned a Masters degree in Accounting from the George
5 Washington University, Washington D.C. In January 1985, I became a
6 Supervisory Consultant responsible for the overall preparation and submission
7 of numerous jurisdictional toll cost separations studies, rate case work, and
8 intrastate tariff filings for a number of JSI clients.

9

10 In November 1987, I was promoted to Director of the Separations Department.
11 In October 1992, I was promoted to Vice President of Operations and given day
12 to day responsibility for all financial and regulatory matters affecting our
13 clients. I am also a member of the National Exchange Carrier Association's
14 (NECA) Universal Service Fund Committee.

15

16 In July of 1997, I was promoted to my current position of President of JSI.

17

18 **Q. On whose behalf are you testifying in this case?**

19

20 **A.** I have been requested to testify on behalf of five incumbent local exchange
21 carriers (five Companies) that have filed for reductions in the price of certain

1 services and seek recovery of the lost revenue from the state USF (SC USF).
2 The Companies are listed in Exhibit A.

3

4 **Q. What is the purpose of your testimony?**

5

6 **A.** The purpose of my testimony is to describe the cost methodology utilized in
7 determining the level of implicit support contained in the rates of the services
8 proposed for reduction by the five Companies. In addition, I will describe
9 recent developments in the federal arena with regard to universal service
10 funding.

11

12 **Q. What role does the SC USF play in ensuring that consumers have access to**
13 **state of the art telecommunications services at affordable rates?**

14

15 **A.** In establishing a State USF, the Public Service Commission of South Carolina
16 (Commission) responded to a legislative mandate that recognized the fact that
17 implicit support for basic local telephone service built into rates for other
18 services cannot be sustained in a competitive environment. Market forces will
19 eventually cause a decrease in the prices for telecommunications services
20 priced above their underlying cost thereby reducing the level of implicit
21 support, or subsidy that is available to maintain affordable basic local service
22 rates in high-cost areas. Accordingly, the SC USF is the mechanism by which

1 implicit support is identified and removed from existing rates and made
2 explicit, thereby ensuring the continuation of universal service to
3 telecommunications consumers in South Carolina.

4
5 **Q. Have there been any recent actions at the federal level relating to universal**
6 **service issues?**

7
8 **A.** Yes. On October 27, 2003, the Federal Communications Commission (FCC)
9 released an Order on Remand (Order) and a Further Notice Of Proposed
10 Rulemaking (FNPRM) addressing universal service issues affecting rural areas
11 served by non-rural carriers. In the Order, the FCC was responding to a
12 decision of the United States Court of Appeals for the Tenth Circuit (Tenth
13 Circuit) and recommendations of the Federal-State Joint Board on Universal
14 Service.

15
16 **Q. What issues were at the center of the Tenth Circuit’s decision and the need**
17 **for the FCC to issue their Order?**

18
19 **A.** The Telecommunications Act of 1996 (Act) codified the historical commitment
20 of the FCC and state regulators to promote universal service by ensuring that
21 consumers in all regions of the nation have access to affordable, quality
22 telecommunications services. Under Section 254(b) of the Act, consumers in

1 rural, insular and high-cost areas should have access to telecommunications
2 services at rates that are reasonably comparable to rates charged for similar
3 services in urban areas. Moreover, Section 254(e) of the Act provides that
4 federal universal service support should be explicit and sufficient to achieve the
5 intended purposes.

6
7 In 1999, the FCC issued its Ninth Report and Order in a proceeding involving a
8 new methodology for the determination of universal support for non-rural
9 carriers based on forward-looking economic costs. The new methodology was
10 challenged in court by Qwest and as a result, the Tenth Circuit issued a
11 decision that remanded certain aspects of the Ninth Report and Order back to
12 the FCC. Specifically, the Tenth Circuit required the FCC to define more
13 precisely the statutory terms “reasonably comparable” and “sufficient” and then
14 to assess whether the new non-rural mechanism adopted would be sufficient to
15 achieve the statutory principle of making rural and urban rates reasonably
16 comparable. In addition, the Tenth Circuit required the FCC to develop
17 mechanisms to induce state action in order to preserve universal service.

18
19 **Q. In your opinion, has South Carolina made the effort to preserve universal**
20 **service in South Carolina as described in the FCC Order?**
21

1 **A.** Efforts to date make it clear that the Commission has made great strides in
2 insuring that all consumers in the state continue to have access to affordable
3 basic local service. The second phase of the SC USF process is a clear
4 indication of the importance of insuring that implicit support contained in
5 existing rates is identified and made explicit so that consumers in the more
6 rural areas of the state do not lose their access to affordable basic local service.
7 Many other states have simply failed to take the necessary steps to address
8 issues so long ago recognized by the Commission and South Carolina
9 legislature.

10

11 **Q.** **Are SC ILECs currently receiving funding from the SC USF for**
12 **reductions in intrastate switched access rates?**

13

14 **A.** Yes. Per Commission Order No. 2001-419, all SC ILECs reduced their
15 intrastate switched access rates by 50% and began recovering the resulting
16 revenue shortfall from the SC USF effective October 1, 2001. The reduction
17 in access charges is referred to as the first step of the initial phase per the
18 SCUSF Administrative Procedures. In Order No. 2001-419, the Commission
19 refers to the access reduction as the initial step.

20

1 **Q. Does the SC USF provide for the identification and recovery of implicit**
2 **support contained in the rates of non-access related services provided by**
3 **SC ILECs?**

4
5 **A.** Yes. According to Commission Order No. 2001-419 and the State USF
6 guidelines and Administrative Procedures adopted in Commission Order No.
7 2001-996, any SC ILEC that has been designated as a carrier of last resort by
8 the Commission may seek recovery from the SC USF for the amount of
9 implicit support contained in certain tariff rates. The amount of implicit
10 support for a given service is the difference between the tariff rate and
11 underlying cost of the service. In order to receive funding beyond the amount
12 associated with the level of implicit support contained in intrastate access rates
13 (first step of the initial phase), the ILEC must file detailed cost data that clearly
14 demonstrates the existence of implicit support in the rate(s) proposed for
15 reduction.

16
17 **Q. Are any SC ILECs currently receiving funding from the SC USF for**
18 **previous reductions in tariff rates?**

19
20 **A.** Yes. Per Commission Order No. 2003-215, the petitions of six SC ILECs for
21 additional SC USF funding in the amount of approximately \$6.6 million were
22 approved. Payments from the SC USF to the six ILECs was to begin no later

1 than October 1, 2003, and would be revenue neutral as each of the six ILECs
2 filed tariff reductions to certain end user rates totaling approximately \$6.6
3 million that became effective upon resizing the SC USF to include the
4 additional recovery amounts.

5
6 In an effort to maintain adequate control and oversight of the SC USF, the
7 Commission created a phase-in approach. As such, Commission Order No.
8 2001-419 limited the amount that an eligible SC ILEC could withdraw from
9 the SC USF per the first phase to no more than an amount equivalent to one-
10 third (33.33%) of its company-specific SC USF. For each of the six
11 Companies, the amount of funding per the first step (access reduction) of the
12 initial phase when combined with the second (end user) step did not exceed the
13 one-third limitation approved by the Commission.

14

15 **Q. In this proceeding, are the five Companies eligible to withdraw additional**
16 **support from the SC USF?**

17

18 **A.** Yes. Each one of the five Companies has provided the detailed cost support
19 required by the Commission in Order No. 2001-419 that demonstrates the
20 existence of implicit support in the services identified. Accordingly, each of
21 the five Companies has proposed reductions in the tariff rates of the services

1 identified and seeks recovery of the associated revenue reductions from the SC
2 USF.

3

4 **Q. What is the amount of additional SC USF support being requested by the**
5 **five Companies?**

6

7 **A.** The amount of additional annual funding requested from the SC USF is
8 approximately \$3.7 million. A breakdown of the additional funding, by
9 Company, is shown in Exhibit B of my testimony.

10

11 **Q. Are any of the five Companies seeking additional SC USF in this**
12 **proceeding already receiving SC USF from previous reductions in service**
13 **rates?**

14

15 **A.** Yes. All five Companies listed in Exhibit B are currently receiving SC USF
16 associated with end user rate reductions approved by the Commission in Order
17 No. 2003-215. In accordance with the SC USF Administrative Procedures,
18 total high cost support for each LEC for the second phase shall not exceed
19 66.67% of the LEC's maximum high cost support. For the five Companies
20 participating in this proceeding, none is requesting additional SC USF that,
21 when combined with SC USF support received in accordance with the first and
22 second steps of the first (initial) phase exceed the 66.67% threshold,

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Q. Does the amount of SC USF requested in the second phase by any of the five Companies cause their total SC USF to exceed the 33.33% threshold established by the Commission?

A. Yes. Three of the companies seek additional SC USF in the second phase that, when combined with the amount of SC USF received in the first phase (first and second steps) would exceed the 33.33% threshold established in Order No. 2001-419. The three companies are Bluffton Telephone Company, Home Telephone Company and PBT Telephone Company.

Q. What is a company required to do before its SC USF withdrawal can exceed the 33.33% threshold established?

A. In Order No. 2001-419, the Commission directed that any company wishing to withdraw more than one-third of its company-specific SC USF amount must first update its cost of basic local exchange service. By updating the cost of basic local exchange service, the Commission can make sure that no company's withdrawal exceeds its appropriate cost or the allowable SC USF for that specific company. The three impacted companies have filed updated cost of basic local exchange service cost studies in this proceeding, as required by the Commission. In the current proceeding, the cost per line for basic local

1 exchange service for the three impacted companies increased when compared
2 with the original results calculated in the initial SC USF proceeding. For
3 Bluffton, the cost per line increased approximately 7.4 %, from \$50.07 to
4 \$53.78. For Home, the cost per line increased approximately 25.9%, from
5 \$46.14 to \$58.08. For PBT, the cost per line increased approximately 8.5%
6 from \$56.49 to \$61.29.

7
8 **Q. Are the annual revenue reductions associated with the proposed service**
9 **rate reductions revenue-neutral to the five Companies?**

10
11 **A.** Yes. The Commission requires that each eligible ILEC must make dollar-for-
12 dollar reductions in rates containing implicit support before the ILEC can
13 withdraw explicit support from the SC USF. In addition to the cost support
14 filed in this proceeding, each Company filed revised tariff pages reflecting the
15 proposed decrease in service rates. The Companies are not eligible to receive
16 SC USF funding until such time as the revised tariff rates are approved by the
17 Commission.

18
19 **Q. Please describe the process that each of the five Companies utilized in**
20 **order to determine which service rate(s) to reduce?**

1 **A.** On an annual basis, all SC ILECs are eligible to file tariff reductions and
2 request additional SC USF support to fund the continued removal of implicit
3 support contained in rates, although participation is not mandatory. As such,
4 any ILEC wishing to participate in the second phase needed to perform a
5 review of its tariff rates for services in an effort to determine which services
6 may contain implicit support. The five Companies participating in the instant
7 proceeding contacted JSI and requested that the required cost analysis be
8 conducted in order to determine the level of implicit support contained in the
9 selected service rates.

10

11 **Q. Please identify and describe the proposed service(s) reductions for the five**
12 **Companies?**

13

14 **A.** As described in the cost studies filed in this proceeding, the five Companies
15 filed proposed rate reductions in the following areas: area calling plans,
16 measured extended area service, private line service, special access, custom
17 calling features, class services, landline-to-mobile optional service and mobile-
18 to-landline termination service, and billing and collection. The existing rates
19 for these services contain levels of implicit support that have historically
20 allowed basic local service rates to be set at rates that are below the cost of
21 providing the service. As competition from wireless, voice over internet
22 protocol and other emerging technologies continues to grow, companies that

1 continue to set rates for services that are priced above cost will see those
2 services migrate to competitors. To the extent that implicit support once relied
3 upon to maintain affordable basic local service rates to rural customers
4 dissipates, rural consumers will be faced with much higher rates for their basic
5 telecommunications needs. Unfortunately, many of these same consumers will
6 not have competitive choices available to them and will be forced to pay more
7 for their basic telecommunications needs. Thus, the continued need to
8 transition implicit support from certain rates to the SC USF is an important step
9 to preserving universal service for all SC consumers.

10

11 **Q. Are the proposed service rates for the five Companies set at a level that is**
12 **above the calculated cost of each service?**

13

14 **A.** Yes. All of the proposed service rates are set at levels above the cost of the
15 service based on the studies performed.

16

17 **Q Please describe what you mean by the cost of the service.**

18

19 **A.** As mentioned earlier, an eligible SC ILEC seeking additional funding from the
20 SC USF must file detailed cost data with the Commission that clearly
21 demonstrates that implicit support exists within the rates identified for
22 proposed reductions. The use of an embedded cost methodology by rural SC

1 ILECs has been approved by the Commission in Order No. 98-322 in this
2 docket. Embedded costs represent dollars actually spent to provide services and
3 include expenditures for plant and operating expenses as represented on the
4 Companies' financial statements. Utilizing the Commission approved cost
5 methodology and actual cost and demand data for the most recent year
6 available, JSI calculated the embedded cost of service for the services
7 identified for each of the five Companies. The embedded cost of each service
8 was then compared to the tariff rate for the service in order to determine the
9 existence of implicit support.

10

11 **Q. Was the cost methodology utilized in the cost studies conducted and**
12 **submitted in the instant proceeding consistent with the cost methodology**
13 **approved by the Commission?**

14

15 **A.** Yes. The methodology utilized to determine the level of implicit support
16 contained in the service rates proposed for reduction by all five Companies and
17 the updated cost of basic local exchange service for three of the five
18 Companies is consistent with the cost methodology approved by the
19 Commission. The same cost methodology was utilized in previous SC USF
20 proceedings to calculate the embedded cost of basic local service and end user
21 service rates.

22

1 **Q.** **What would you have the Commission do in regards to this proceeding?**

2

3 **A.** I would respectfully request that the Commission approve the petition of the
4 five Companies and grant the reductions of rates requested in accordance with
5 existing law and Commission orders, and resize the SC USF to recover the
6 implicit support identified.

7

8 **Q.** **Does this conclude your testimony?**

9

10 **A.** Yes, it does.

Direct Testimony of Emmanuel Staurulakis

Docket No. 97-239-C

Exhibit A

List of South Carolina Companies

Bluffton Telephone Company, Inc.

Hargray Telephone Company, Inc.

Home Telephone Company, Inc.

Horry Telephone Cooperative, Inc.

PBT Telecom

Direct Testimony of Emmanuel Staurulakis

Docket No. 97-239-C

Exhibit B

Requested Universal Service Funding Associated With
The Proposed Reductions In Service Rates

Bluffton Telephone Company, Inc.	\$ 250,544
Hargray Telephone Company, Inc.	\$ 337,890
Home Telephone Company, Inc.	\$ 721,428
Horry Telephone Cooperative, Inc.	\$ 1,957,949
PBT Telecom	<u>\$ 470,622</u>
Total Additional SC USF Requested	<u>\$ 3,738,433</u>